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Know Your Bank

Isabel McGibney

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KNOW YOUR BANK

In our economic system one mark of success is the ability to handle financial affairs well. Today every member of the family makes business transactions. Children are opening savings accounts. The wife is no longer the silent partner who accepts the dictates of the husband. She is spending nearly 80 per cent of the money.

With all family members cooperating in solving family problems, a greater confidence in the future, a feeling of security and peace of mind will result.

By Isabel McGibney
Home Management Specialist

Agricultural Extension Service

South Dakota State College

U. S. Department of Agriculture

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Your Bank

The ordinary bank in your community is technically called a commercial bank. It handles deposits, makes loans, invests surplus funds, cashes checks, operates a safe deposit department, and performs other similar services.

Five Financial Institutions

There are other financial institutions carrying the word "bank." There are:

Mutual savings banks, whose main function is to receive your savings and invest them safely so you receive interest.

Some banks are known as **trust companies** and use the word "trust" in their title. These banks hold and administer your property according to your wishes. These companies also do commercial banking and are actually not much different from any other commercial bank.

The chief function of an **industrial bank** is to make small loans to individuals.

There are also **investment banks** which engage mainly in the purchase and sale of corporation stocks and bonds.

The **12 Federal Reserve Banks** are very important. These banks act as a central or "bankers' bank" and serve the government and commercial banks. They issue currency, make loans and investments, buy and sell government bonds, and generally operate to give the nation a sound monetary and banking system.

Services of Banks

The chief services of a bank are: **handling deposits**—these deposits are funds held by a bank to the credit of individuals, single proprietorships, partnerships, corporations, government bodies, and other organizations. The bank serves as a convenient place into which your funds can be placed and withdrawn with a minimum of effort and loss of time. **Making loans**—the bank places money or other funds at the disposal of individuals, business organizations, home-owners, farmer, indus-

tries, stores, and others for meeting business and personal needs. These loans are available to borrowers, small or large, with good credit standing and may run from one day to 25 years. **Creating a medium of exchange**—a medium of exchange is a commonly accepted means of paying bills, buying merchandise and settlement of other obligations. The two methods of making the payments are with money and checks. Over 90 per cent of the business in the country is done through checks. Last year the banks created a medium of exchange which is four times as important as all the money in circulation. This service reduces the need for the government to issue more paper money and coins and at the same time creates a method of payment which in many ways is superior to money.

Investing funds—banks accumulate funds for which there are no immediate needs. To prevent an economic loss if these funds were left idle, they are placed in approved investments. The interest thus earned is used to defray the expenses of operating the bank, including the payment of interest on savings accounts. Idle funds benefit no one. **Render financial assistance to Federal government**—this assistance is given in two ways: (a) lending money and (b) performing services of an agency character. The banks are the largest purchasers and holders of government bonds. In the character of an agency they sell government bonds to the public and redeem them; collect interest on them for private owners; they act as depositories where employers deposit income taxes withheld from employees. They aid on bond drives, provide the public with coin and currency and many other things. These services are largely at the expense of the bank and at little or no cost to taxpayers.

Clearing and transferring funds—clearing is the process by which checks drawn on other banks or in other cities are collected and placed to the credit of depositors. Transferring funds is the process by which funds are sent from one community to another. **Handling trust funds**—many individuals and organizations have securities, property, and other funds which they prefer to be held and managed by a bank rather than

have the responsibility of doing so themselves.

Safe deposit service—the banks have a special vault where individuals and organizations may rent safe deposit boxes. In these boxes can be stored valuable papers and pieces of property. Maximum protection is given and the boxes are accessible only to properly authorized and identified persons. Rent is very reasonable for the protection given to irreplaceable property. **Safety protection**—when banks invest money, the investment must give safety of principal, stability of income, reasonable rate of return, and others. Because of these factors the rate of interest is necessarily limited. The return on your money is small but safe.

Directors of the banks are selected with a great deal of care. They are selected because of their experience and sound judgment. They in turn select officers and employees for their competence and honesty.

The director is on the constant watch for errors, irregularities, and fraud in the handling of your money.

Protection Against Loss

Every bank carries insurance which gives protection against many possible causes of loss. Some of the protection is against fire (bank and contents,) windstorm, flood, explosion, smoke, civil riot, strikes, and others which include burglary, larceny, robbery, errors and omissions in loans, forgery and mail losses.

Added protection is given you as a depositor by insuring your deposits up to \$10,000. The insurance funds for this protection are provided by member bank payments. In the period 1945 to 1950 no depositor in any insured bank in the country lost a penny, regardless of the cause, because of bank failure.

Further protection is given by law. All national banks operate under the National Bank Act and all state banks operate under laws of the state. Those banks which belong to the Federal Reserve System are subject to all regulations of the Federal Reserve Act.

Because of the protection given by bank management and the various acts of banking legislation, as well as the operation of the Federal Deposit Insurance Corporation, your deposits are afforded a very high degree of protection against loss.

You and Your Bank

After you select the bank you wish to handle your money, the first thing is to open a checking account. The service of the checking account is so valuable that it is sound business practice to have one. A checking account is a safe place to keep funds. The check is unique among all methods of payment in its advantages. The advantages of a check is that it can be written for any amount or odd denominations; it can be sent by mail; it serves as a receipt for payments; it is not bulky as currency and coin; and there is less danger in case of loss or theft.

Banks depend upon the honesty of their customers to a high degree so when you open a checking account you will be asked to identify yourself and to give references.

After your identity and character have been established, the rest of the procedure is simple. You will fill out a form which the bank will provide. This will be information about your residence, occupation and signature. This card is placed on file and is used for identification purposes so it is important that you adopt one form of signature and always use that form. In the case of husband and wife using a joint checking account the card should be filled out Mr. James or Mary Smith or either. This makes it legally possible for either to write checks at any time. In case of the death of either party, the account belongs to the surviving member.

In a similar way you might have on file in the bank the signature of some member of your family who would be privileged to write checks

on your account giving them “power of attorney.” If this is done, in case of an emergency, the family has means of availing themselves of the money.

DEPOSITED IN

Yourtown National Bank

YOURTOWN, U.S.A.

By William B. Jones

Feb. 15 1955

	DOLLARS	CENTS
CURRENCY	36	00
COINS	5	31
COUPONS		
CHECKS		
<u>Omaha, Nebr.</u>	46	10
<u>St. Paul, Minn.</u>	14	43
ORIGINAL	TOTAL \$	101 84

20

NOT NEGOTIABLE

Received by _____

Fig. 1. The deposit slip

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Depositing Money

When money is to be deposited in the bank, a deposit slip is made out. Provision is made on the slip for your name, the date and the nature and amount of deposit. Currency and coins are listed separately. Checks are listed individually. Fig. 1.

If you are opening a checking account, present this form, completely filled out, to the cashier and state that you wish to open a checking account. He will provide you with a bankbook and a checkbook containing blank checks.

The bankbook is the depositor's receipt for all deposits made. Some banks do not use a bankbook, but make out a duplicate deposit slip and the teller initials it.

Most banks have service charges. The banker will explain the policy of the bank on this matter when you open your checking account. This charge is used to defray the cost of handling an unprofitable account. These are used mostly for small accounts, those in which the balance falls below a certain amount such as \$50 or \$100. No matter the size, if the account causes a loss to the bank because of its great activity, a service charge is made.

Paying by Check

A personal check is one of the most common forms of remittance. It is a written order to a bank, in which you have funds for the payment of money to the person named on the check, (the payee). The check should be presented for payment at the earliest possible date. It must be paid on demand.

Checks should be made out on the form supplied by the bank. Care should be taken that each check is correctly filled out. The stub of the check is made out first. This serves as a record of the information on the check and can be used later for comparison. On the stub is written the number of the check, the date, the amount, and reason for writing the check. Keep the stubs up to date. Then at a glance you will be able to tell what the balance is.

Number each check and stub so that each check drawn can be accounted for later. Date each check and stub properly. Undated checks are legal, however, in any controversy over a debt the date is important as evidence of time payment.

"Pay to the order of" is printed on each check form. Write the name of the person or company who is to receive the money after these words. "To the order of" means the check can be cashed by the payee or can be signed and passed on to another person for cashing.

When you go to the bank to withdraw money in person, you can make the check out to "Cash." This should be used at no other time. A check drawn to "Cash" can be cashed by anyone.

After the dollar sign, write the amount of the check in figures placing the figure as close to the dollar sign as possible. Write carefully to avoid the danger of the figures being misread.

In the space preceding the word dollars at the extreme left end of the line spell out the amount and the fractional part in figures, thus (Ten dollars and 98/100-----.) Fill out the unused space with a wave-shaped line. The signature should be carefully written in and be exactly the same as that used on the signature card you filled out when you opened your checking account. The signature should be written plainly. Simple writing is the most difficult to forge.

No. 123 Feb 15 1955 John A. Smith \$25.00		Yourtown, U.S.A. <u>February 15, 1955</u> No. <u>123</u>	
		YOURTOWN NATIONAL BANK	
To <u>John A. Smith</u>		PAY TO THE ORDER OF <u>John A. Smith</u> \$25.00	
BALANCE	185 00	<u>Twenty-five and 00/100</u> DOLLARS <u>William B. Jones</u>	
DEPOSIT	100 00		
TOTAL	285 00		
CHECK	25 00		
BALANCE	260 00		

Fig. 2. The check and stub

The bank employs seven tests to determine whether to cash your check.

1. There must be sufficient collected balance to cover the check.
2. The check must not have been altered.
3. The signature must be genuine.

4. The check must not be stale or postdated.
5. There must be no order to stop payment.
6. There must be no circumstances such as death or bankruptcy which prevents payment.
7. The party who requests payment must be entitled to receive it, he must be properly identified.

Banks recommend the following practices in writing checks:

1. Do not sign blank checks.
2. Always make out the check in ink or indelible pencil.
3. Write to the extreme left on each line.
4. Draw a line through unused space.
5. Write simply and plainly.
6. Destroy all checks spoiled in writing.
7. Never make out checks to "Bearer" or "Cash."

Keep all canceled checks for at least two years. Then throw out the insignificant ones. Save for permanent record (10 years) checks that paid such items as taxes, insurance, mortgages, personal debts, stocks and bonds.

You can stop payment on a check. To do this you put a "stop" payment order in writing and see that it reaches the bank before the check is presented. An oral or telephone request is not binding. When you write the order, give the date of the check, the number, amount, and person to whom it was given.

Endorsing a Check

To endorse a check, write your name on the back and at the left end. Your name in the endorsement should correspond exactly with that on the face of the check. If your name is misspelled, write it the same on the endorsement with the correct spelling underneath.

There are two kinds of endorsements used most frequently. They are the **blank** and **restrictive**. For a blank endorsement you write your name on the back of the check. This is generally used when checks are presented direct-

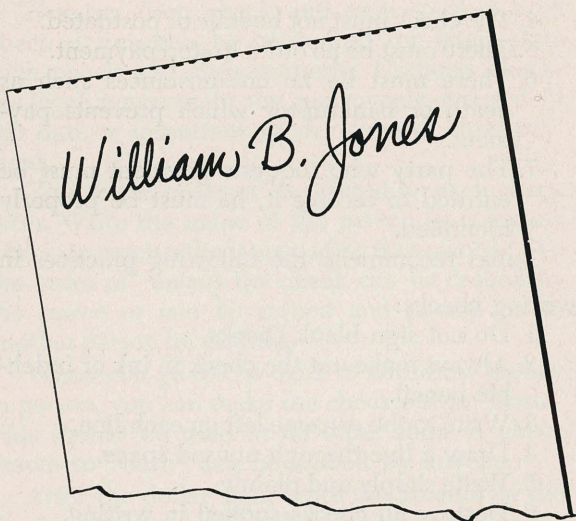


Fig. 3. The blank endorsement

ly to the bank for cashing. This type of endorsement is simple to make, but does not protect against loss as well as restrictive endorsement. For a restrictive endorsement you should write your name on the back of the check and add the words "For Deposit Only." The advantage of this type is that the check can be cashed only by the specified party. This is always recommended when checks are mailed or sent by messenger to be deposited.

Another form of restricted endorsement is to write across the back of the check "Pay to the order of (a particular person) only" and your name. A check of this kind cannot be transferred.

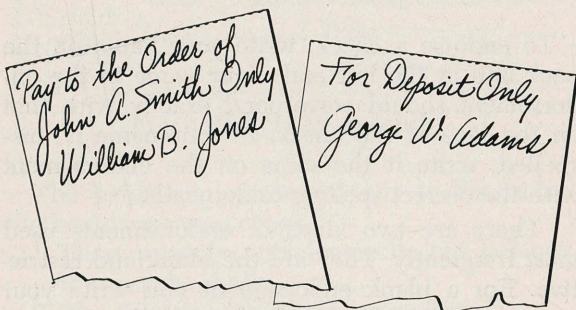


Fig. 4. Two restrictive endorsements

If you sign a check, knowing you have no money in the bank, you may be criminally liable.

Checking Your Statement

Secure your bank statement each month. This can be mailed to you or you can call for it. Check the statement and balance it with the checkbook. A comparison of these two records will detect any errors and will thereby save confusion and loss of time later.

Steps in checking a bank statement are:

1. Throughout the month a correct record is kept on the stubs of the checkbook.
2. A check is made to see that all checks on the bank statement have been returned with the statement.
3. Checks are arranged in numerical order according to check number.
4. Checks received are checked off on the stubs of checks in the checkbook. In this way missing checks are detected.
5. The amounts of all the checks shown on the unchecked stubs are added to the balance shown on the last stub used on the date to which the bank statement is balanced. The total should agree with the balance on the statement. An attempt should be made to account for any irregularities. If this attempt fails, the bank should be notified. Keep the bank statements at least two years.

Other Bank Services

A **bank draft** is an order of one bank on another to pay to a third party a specified sum of money. Bank drafts are purchased by you from the bank, either upon payment of actual money, or upon the exchange of a personal or firm check. A bank draft will be accepted without question, whereas your personal check may not be accepted unless it is known to be good.

A **bank money order** is an order in the form of a draft with your name on it and the duplicate issued to you as your receipt. Some prefer this to a money order.

A **cashiers' check** is an order in the form of a check, drawn by a bank upon itself and signed by the cashier, who is in charge of banking operations. This is used locally.

When you plan to travel, you may purchase bank or express company **traveler's checks** in denominations from 10 dollars up. You must sign each check in the space provided at the time of purchase. The checks may be cashed at any bank or express company office and you will be required to countersign the check in the presence of the party cashing it. The convenience of these checks makes it unnecessary for you to carry large sums of money when traveling.

A **savings account** can be opened by taking the cash directly to the cashier and tell the one in charge you wish to deposit that amount in a savings account. You will be provided with a savings deposit book in which are recorded deposits and withdrawals. The savings deposit book must show each deposit and withdrawal. A savings account is desirable for the family and also for each member. It makes possible the collection of small amounts of money and encourages thrift.

Safety deposit boxes may be rented from the bank for a yearly fee. These are important for the storage of valuable papers and possessions. No person except the owner is permitted to open the box. It is important to safeguard the key. There are two locks on each box, the bank has a master key for their lock and the renter has a key. It takes both keys to open the box.

Your community bank is a very important part of the American way of life. It is your key to a secure future. It assumes the responsibility of handling your finances efficiently and expertly—safeguarding your money, investing it wisely, issuing loans, all of it to your advantage. Use it and use it intelligently.

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COLLEGE OF AGRICULTURE AND MECHANIC ARTS,
BROOKINGS, SOUTH DAKOTA

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